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July 29, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: Investigation Regarding the Assignment of Interstate Pipeline Capacity Pursuant to D.T.E. 98-32-B, D.T.E. 04-1

Dear Ms. Cottrell:

On behalf of New England Gas Company, please find attached responses to Information Requests DTE-2-1 through 2-8 and DTE 3-1 through 3-3 in the above-referenced proceeding.

Please contact me if you have any questions regarding this correspondence.

Very truly yours,

John K. Habib

John K. Habib

Enclosures
cc: Service List
Peter Czekanski

Information Request DTE-2-1

All parties should comment on the nature and magnitude of any potential commodity-cost implications of a shift to a path, rather than slice-of-system, approach to capacity assignment, as raised in Bay State Gas Company's Reply Comments, at p. 6.

Response

The cost of the gas commodity deliveries to the LDC is made up of three components: (1) the initial purchase price at the point of receipt; (2) the variable transportation charges paid to the pipeline; and (3) the pipeline fuel loss. By definition, the purchase price is composed of the NYMEX (Henry Hub) price and a basis differential that varies by location. Each pipeline path will have its own receipt point or points with an associated basis. The gas will be subject to commodity charges and fuel loss factors based on the route it takes to the city gate or storage. The basis differential is a variable price that changes as supply and demand changes. As the basis changes, the cost impact of fuel losses will also change.

The magnitude of the potential commodity cost shift would depend on the approach used. If the approach were to assign a path to marketers based on demand costs only (completely ignoring any commodity components), the cost shift to the remaining sales customers could be substantial. However, if the other commodity components are included in the analysis to determine the assignment, the difference could be more modest.

Information Request DTE 2-2

Please provide a discussion of other potential implications, besides commodity costs addressed in the previous Information Request, of a shift to the path-based capacity-assignment standard.

Response

Several issues beyond the commodity cost issue must be addressed if a path base approach is used, including:

1) determining the protocols by which paths will be selected by marketers;

2) establishing parameters for discretion by marketers to choose paths; and

3) determining whether storage will also be handled on a path basis.

The Company believes that each of these issues should be part of a comprehensive discussion regarding the possible revision of the Model Terms and Conditions to allow a path-based capacity-assignment standard.

Information Request DTE-2-3

Discuss the question as to (i) whether a shift to the path capacity-assignment standard will ease administrative burdens of contract management and thereby increase competitiveness of marketers and (ii) assuming a fully and workably competitive Massachusetts gas market, whether the impact of path-specific commodity-cost differentials will diminish as transportation volumes increase as a percentage of LDC throughput.

Response

(i) The Company anticipates that a shift to a path approach would ease administrative burdens modestly. It is not clear that it would have any noticeable effect on competition.

(ii) The impact of path-specific commodity cost differentials will depend on the approach used to assign paths. As transportation volumes increase, the approach will likely need to be adapted to insure it remains fair and reasonable in the way costs are borne by marketers and LDC customers.

Information Request DTE-2-4

Assuming the Department were to adopt a standard of path-based capacity assignment, please enumerate and discuss what Terms and Conditions changes might be necessary to implement such a shift.

Response

It must be noted that, at a minimum, Section 13 of the Model Terms and Conditions, which currently addresses capacity assignment, would have to be completely rewritten. The adoption of a path-based approach should begin with a process to develop an approach to minimize subsidization. Moreover, the Department should recognize that LDC portfolios are different and, accordingly, some variation in approach between LDCs should be allowed. The Company would need additional time to review the Terms and Conditions to develop recommendations for changing its provisions to allow path-based capacity assignment.

Information Request DTE-2-5

What Terms and Conditions changes might need to be implemented in order that a shift to the path capacity-assignment standard would spare firm and transportation customers of any commodity-cost subsidization?

Response

Please see the Company's response to Information Request DTE-2-4. In addition, to achieve a fair result to both marketers and sales customers, the use of a path approach would require development of a formula to equalize alternative paths on a total cost basis. This would include both demand cost and commodity cost in the calculation. These costs could then be used to either: 1) provide a path or combination of paths that mimic the system average cost; or 2) develop a system of credits.

Information Request DTE-2-6

Each LDC should address whether or not it releases capacity on a monthly basis or some other basis, such as the term of the underlying contract, noting the relevant provisions of the company's Terms and Conditions, and explaining any variance from those provisions.

Response

The Company is currently releasing capacity on a month-to-month basis. This protocol, which is a deviation from the Terms and Conditions, was based on a poll of marketers who agreed that monthly releases were preferred to facilitate consistency with pipeline release rules. The Company has received no inquiries or requests to make annual or life-of-contract releases, but will do so upon request.

Information Request DTE-2-7

If the Department were to decline to adopt the terms and conditions changes proposed by the marketers[1] and adopted a path approach instead of a slice-of-system approach, please address the effect on system operations and competition.

Response

Please see the Company's response to Information Request DTE-2-2 addressing issues that the Company believes should be addressed before moving to a path-based capacity assignment policy. Given those issues, it must be noted that, because of the Company's resource portfolio, the Company's primary issue with a move to a path-based capacity assignment approach is cost and the minimization of subsidization. The Company believes that, at least as they apply to the Company, operational issues may be able to be addressed in the context of developing new Terms and Conditions for capacity assignment. The Company is unable to speculate on the effect of a move to a path-based capacity assignment policy on competition.

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1 These changes include: (i) monthly re-call and re-release of capacity; (ii) balancing penalty provisions, (iii) synchronization of nomination deadlines and procedures with industry standards; (iv) marketer access to the algorithms used by LDCs to forecast the usage of non-daily metered customers; and (v) modification of the algorithms used to forecast the usage of non-daily metered customers for summer and winter loads to exclude weather sensitivity calculations.

Information Request DTE-2-8

If the Department were to adopt the terms and conditions changes proposed by the marketers and maintained the slice-of-system policy, please address the effect on system operations and competition.

Response

The impact of adopting the changes to the terms and conditions proposed by the marketers would depend on which changes were adopted and how the actual recommended changes are implemented. Below are comments on each of the changes outlined in the footnote #1.

(i) Monthly recall and re-release of capacity:

Please see the Company's response to Information Request DTE-2-6. The effect on system operations and competition would be very small.

(ii) Balancing penalty provisions:

Balancing penalty provisions may affect system operations, depending on their implementation. Penalties should never be less than the pipeline penalties that would fall on an LDC as the point operator. They must also exceed the daily and intra-day gas prices or the marketer may have a powerful incentive to sell his supply elsewhere under the most extreme conditions and absorb the penalty. Since intra-day prices can be significantly higher then the published price, a multiple of the published daily price is appropriate. However, limiting the excess above the daily price in some fashion to prevent the type of extreme penalties observed this past January would be reasonable and might help the competitive situation without compromising system security. For example, the penalty could be capped at twice the greater of the daily price or the highest price paid for supply for that day by the LDC including any pipeline penalty paid by the LDC plus the highest pipeline penalty the LDC could have been charged that day.

(iii) Synchronization of nomination deadlines and procedures with industry standards:

Energy East raised the issue of nomination and scheduling for holiday periods. Such nominations and scheduling would not have a significant effect, provided the LDCs have the ability to develop a schedule that will leave them with the opportunity to adjust their supply after marketer nominations are submitted.

(iv) Marketer access to the algorithms used to forecast usage for non-daily metered customers; and

(v) modification of the algorithms used to forecast the usage of non-daily metered customers for summer loads to exclude weather sensitivity calculations

Changes to the estimation algorithms, or the distribution thereof, could present significant issues for LDCs. Each billing system has an approach that may make compliance with the above conditions very difficult or extremely expensive. It could require a major rewrite of the billing software to accomplish such changes. In addition, where the marketer has requested sharing of the actual formula, it is important to recognize that the factors used may change frequently. Customer behavior is not always consistent and businesses and households change schedules, take vacations and do things that change their energy use. As they do, the factors used to estimate their consumption also change and the timing of those changes could cause marketers to rely on obsolete information. Any changes to the current rules should be investigated thoroughly before implementation to determine if the cost to make the change is justified by the potential impact on competition in the supply market.

Information Request DTE-3-1

All parties should comment on whether § 12.3.2 of the model Terms and Conditions presently requires LDCs to provide to marketers the baseload and temperature sensitive algorithms used for non-daily metered customers. If your position is that the section does not require LDCs to provide the algorithms, discuss the specific information this section requires the LDCs to provide and whether the model Terms and Conditions should be amended to provide the algorithms. Each LDC should include in its comments the current practice by the LDC on providing the algorithms to marketers.

Response

Under the provisions in § 12.3.2 of the model Terms and Conditions, New England Gas Company provides marketers with a generic description of the baseload and temperature sensitive algorithms used for non-daily metered customers. Please see the attached document for a copy of this description. These algorithms are used for calculation of both the Adjusted Target Volume ("ATV") associated with a daily nomination requirement in § 12.3.2 as well as for a customer's Total Capacity Quantity ("TCQ") used for assignment of capacity to a marketer under the provisions of § 13.3. Because the use of these algorithms are specific to a particular customer's usage, the Company only provides an actual algorithm and factor calculation upon a specific request from a marketer provided the request is for the marketer's customer. The Company believes that there is no need for any change to the existing model Terms and Conditions.

Information Request DTE-3-2

Some marketers state that modifying the Model Terms and Conditions to require true-ups of actual versus delivered volumes on a monthly basis will encourage more accurate forecasting and lower costs for all participants. In this regard, please:

(A) discuss whether you agree with the statement;

(B) discuss any potential problems to implementing monthly true-ups instead of semi-annual true-ups; and

(C) address whether monthly true ups would address or minimize the need to adjust the algorithms for temperature sensitive usage? If not, please discuss how the data could be made more accurate.

Response

(A) New England Gas Company does not agree that monthly true-ups would encourage more accurate forecasting. Monthly billed consumption is affected by estimated readings or minor variations in a customer's usage pattern which are unrelated to a forecasting algorithm and whose effects are minimized when trued-up with forecasted consumption on a semi-annual basis.

(B) A potential problem with implementing monthly true-ups is the increased administrative effort that would be associated with both the preparation of the true-up as well as the reviewing and explaining of month-to-month fluctuations that are likely to occur as a result of estimated readings or minor variations in a customer's usage pattern.

(C) As discussed in the responses to (A) and (B) above, New England Gas does not believe that monthly true-ups would address or minimize the need to adjust the algorithms. No algorithm is ever going to be 100% accurate in predicting usage especially for customers whose consumption is primarily driven by process load. One approach to minimize variations between forecasts and the semi-annual true-up would be to introduce an adjustment factor in the daily ATV calculation for any marketer's pool where the true-up was outside a specified percentage bandwidth. The marketer would have the option to request of the LDC the application of an adjustment factor on a going forward basis with the adjustment factor being agreed to by the marketer and the LDC on the basis of the variation in the most recent semi-annual true-up and reflecting any changes in the makeup of the marketer's pool.

Information Request DTE-3-3

Should the Terms and Conditions concerning holiday nomination deadlines be modified to synchronize the nomination schedule over holiday periods with current gas supply industry practice in Massachusetts? Alternatively, does the term "best efforts" by the LDCs as referred to in §11.3.3 and §12.3.4 of the Terms and Conditions need further definition to standardize the practices among Massachusetts LDCs? Discuss whether a clarification to the Terms and Conditions that equates the LDCs "best efforts" as referred to in §11.3.3 and §12.3.4 with industry-standard trading and nomination schedules for holidays and weekends would satisfy the marketers' concerns regarding non-standardization of nomination schedules.

Response

New England Gas Company (the "Company") does not oppose modifying the Terms and Conditions concerning holiday nomination deadlines in order to synchronize the nomination schedule over holiday periods with current interstate pipeline practice. The Patriots' Day holiday is the only day that does not conform to the pipelines' holiday schedules and the Company allows the marketers to nominate as they wish so as to accommodate the marketers that are located in Massachusetts. The Company accepts marketer nominations 24/7 and only rejects untimely nominations that it believes would cause it to incur pipeline penalties.